

Underpayment of Estimated Tax by Individuals

Phone Numbers

If you have questions, please call one of the following help numbers:

| | |
|--------------------------------|----------------|
| Phoenix | (602) 255-3381 |
| Nationwide, toll-free | (800) 352-4090 |
| Form orders | (602) 542-4260 |
| Forms by Fax | (602) 542-3756 |
| Recorded Tax Information | |
| Phoenix | (602) 542-1991 |
| Other Arizona areas, toll-free | (800) 845-8192 |
| Hearing impaired TDD user | |
| Phoenix | (602) 542-4021 |
| Other Arizona areas, toll-free | (800) 397-0256 |

You may also visit our web site at:
www.revenue.state.az.us

Purpose of Form

Arizona requires certain individuals to make estimated income tax payments. The department charges a penalty for failure to make any required estimated payments. The department also charges interest on any late or underpaid estimated tax payment.

Individuals use Form 221 to determine whether they paid enough estimated tax. Individuals also use this form to determine whether they are subject to penalty and interest for any late or underpaid estimated tax payment.

Are You Subject to the Penalty?

You must have made Arizona estimated income tax payments during 1998 if either of the following apply.

1. You reasonably expected your Arizona gross income to exceed \$75,000 in 1998.
2. Your Arizona gross income in 1997 was greater than \$75,000.

In projecting current Arizona gross income, you must use ordinary business care and prudence.

If you were unable to project your 1998 Arizona gross income, you may request a waiver from the requirement to make estimated payments. The department may grant a waiver for one or more payment periods. You must request a waiver in writing. If requesting a waiver, attach your request to your return when you file. Your request must explain the reason why you could not reasonably project your Arizona gross income for one or more payment periods during 1998.

The department may grant a waiver only if all of the following apply.

1. Your Arizona gross income for 1997 was less than \$75,000.
2. Using ordinary business care and prudence, you were unable to reasonably project your 1998 Arizona gross income.

You must attach a completed Form 221 and your request to your return.

The Arizona gross income of a single individual will be the same as his or her federal adjusted gross income reported on the federal return. The Arizona gross income of a married individual who files separate returns for both federal and Arizona purposes will be the federal adjusted gross income reported on the federal return.

For estimated payment purposes, the Arizona gross income of married individuals who file a joint federal return is not the federal adjusted gross income on that joint return. In order for each spouse to determine whether he or she must make Arizona estimated payments, the spouses must determine what portion of the total income is attributable to each spouse. Each spouse must compute his or her income as if filing a separate Arizona income tax return. This calculation determines whether either spouse must make Arizona estimated income tax payments.

Each spouse must consider Arizona's community property laws when separately calculating his or her income. Any income that is designated as community income is taxable one-half to each spouse. Each spouse may claim one-half of the deductions and credits related to items of community property. In addition, each spouse may claim one-half of the total income tax withheld on community income. For estimated payment purposes, each spouse's Arizona gross income must reflect one-half of the community income from all sources taxable to Arizona plus any separate income taxable to Arizona.

If you had an Arizona gross income under \$75,000 for both 1997 and 1998, you are not subject to the penalty.

Should You Complete This Form?

You must complete this form if your individual Arizona gross income for 1997 or 1998 exceeded \$75,000. Complete this form to determine if you are subject to the penalty. *You must attach the completed Form 221 to your Arizona Form 140, Form 140PY, or Form 140NR.*

If you are a calendar year filer that reports as a farmer or fisherman for federal purposes, you do not have to make estimated payments or complete Form 221 if all of the following apply.

1. You file your Arizona return by March 1, 1999.
2. You pay in full the amount stated as payable on the return.

If you are a fiscal year filer that reports as a farmer or fisherman for federal purposes, you do not have to make estimated payments or complete Form 221 if all of the following apply.

1. You file your Arizona return on or before the first day of the third month after the end of a fiscal year.
2. You pay in full the amount stated as payable on the return.

If you have to make Arizona estimated income tax payments, your payments must reasonably reflect your Arizona income tax liability for the taxable year. Your combined Arizona estimated income tax payments and Arizona withholding must total one of the following.

1. 90 percent of the tax due for 1998.
2. 100 percent of the tax due for 1997 if you were required to file and did file a 1997 Arizona income tax return.

Part A - Calculation of Underpayment

Complete lines 2 through 13 to determine if you underpaid your 1998 Arizona estimated income tax payments.

Penalty and Interest Exceptions

You will not have to pay the penalty and interest if either 1 or 2 below applies.

1. You had no federal tax liability for 1997. You were also a U.S. citizen or resident of the U.S. for the entire year and your 1997 tax return was (or would have been had you been required to file) for a full 12 months.
2. The total tax shown on your 1998 federal income tax return minus your federal withholding is less than \$1000.

If either 1 or 2 above apply to you, check the box on line 1 and complete lines 2 through 13.

Penalty and Interest Waivers

If you have an underpayment on line 13, the department will waive all or part of the penalty and interest for that underpayment if the department determines that either 1 or 2 below applies.

1. The underpayment was due to a casualty, disaster, or other unusual circumstances, and it would be inequitable to impose the penalty.
2. In 1997 or 1998, you retired after age 62 or became disabled, and your underpayment was due to reasonable cause.

To request a waiver for an underpayment described in either 1 or 2 above, do the following.

- Check the box on line 1.
- Complete Form 221 through line 40 without regard to the waiver. Write the amount you want waived in parentheses on the dotted line next to line 41. Subtract this amount from the total penalty and interest you figured without regard to waiver, and enter the result on line 41.
- Attach Form 221 and a statement to your return explaining the reasons you were unable to meet the estimated tax requirements. Also show the time period for which you are requesting a waiver.

- If you are requesting a penalty and interest waiver due to a casualty, disaster, or other unusual circumstances, attach documentation such as copies of police and insurance company reports.
- If you are requesting a penalty and interest waiver due to retirement or disability, attach documentation that shows your retirement date (and your age on that date) or the date you became disabled.

Line 2 –

Enter your 1998 income tax liability from Form 140, page 1, line 29, or Form 140PY, page 1, line 29, or Form 140NR, page 1, line 29.

NOTE: If you compute your tax liability under the claim of right provisions enter the net tax liability as computed under the claim of right provisions.

Line 3 –

Enter any tax credits claimed on your 1998 individual income tax return from Arizona Form 301.

Line 4 –

Subtract line 3 from line 2. This is your 1998 tax liability.

Line 5 –

Multiply the amount on line 4 by 90 percent. Enter the result.

Line 6 –

Enter your 1997 tax liability (after tax credits). Only enter an amount on line 6 if you were required to file and did file an Arizona personal income tax return for 1997. If you were not required to file or did not file an Arizona personal income tax return for the preceding tax year, skip this line.

Line 7 –

If you entered an amount on line 6, enter the lesser of line 5 or line 6. If you did not enter an amount on line 6, enter the amount from line 5.

Line 8 –

In columns (a) through (d), enter the due dates for your federal estimated income tax payments if different from the preprinted dates.

Line 9 –

Divide the amount on line 7 by four (4). Enter the result in each column. In some cases you did not have to make your payments in four equal installments. If you did not have to make your payments in four equal installments, check the box and enter the amount of your required payment(s) in the appropriate column. You did not have to make payments in four equal installments if you made your payments under any of the following methods.

1. The annualized income installment method. If you use the annualized income installment method, complete the worksheet on Form 221, page 2. Also enter the amount from line 23 of that worksheet in each column of line 9. If you use the annualized income installment method, you must check the box on line 9.

2. File and pay by February 1, 1999. If you file your Arizona return by February 1, 1999, and pay in full the amount stated on the return as payable, you do not have to make the fourth estimated tax payment. Fiscal year filers must file and pay by the last day of the month following the close of the fiscal year.

3. Farmer or fisherman. If you report as a farmer or fisherman for federal purposes, you only have to make one installment for a taxable year. The due date for this installment for a calendar year filer was January 15, 1999. The due date for a fiscal year filer is the 15th day of the first month after the end of a fiscal year. There is no requirement to make this payment if you file your Arizona return on or before March 1, 1999, and pay in full the amount stated on the return as payable. Fiscal year filers must file and pay on or before the first day of the third month after the end of a fiscal year.

4. Nonresident alien. If you are an individual who elects to be treated as a nonresident alien on the federal income tax return, you may make three estimated payments. The due dates for these installments were June 15, 1998, September 15, 1998, and January 15, 1999. The first installment must have equaled 50 percent of the total required payments.

Line 10 - Estimated Tax Paid and Withheld

Enter the estimated tax payments you made plus any Arizona income tax withheld for that quarter.

In column (a), enter the tax payments you made by April 15, 1998, that were for the 1998 tax year. In column (b), enter payments you made after April 15 through June 15, 1998. In column (c), enter payments you made after June 15, 1998, through September 15, 1998. In column (d), enter payments you made after September 15, 1998, through January 15, 1999.

When figuring your payment dates and the amounts to enter on line 10 of each column, apply the following rules.

1. Include one-fourth of your Arizona income tax withheld in each column. The department considers you to have paid one-fourth of Arizona income tax withheld on each payment due date unless you can show otherwise.
2. Include in your estimated tax payments any overpayment of tax from your 1997 return that you elected to apply to your 1998 estimated tax. You should report this amount in column (a).
3. If you file your return and pay the tax due by February 1, 1999, include on line 10, column (d), the amount of tax you pay with your return. In this case, you will not owe a penalty for the payment due by January 15, 1999.

NOTE: If line 10 equals or is more than line 9 in all columns, you do not owe a penalty. Do not complete the rest of this form. You must attach a copy of this form to your return.

Lines 11 through 13 -

Complete lines 11 through 13 for one payment period **before** you go to the next period.

If you have an overpayment on line 13 for the period, you may apply it to a prior period underpayment to stop the accrual of penalty and interest on that underpayment. If you apply an overpayment in this manner, use the date the overpayment was paid when you figure the penalty and interest on the underpayment on line 13. You may then carry the remainder of the overpayment forward to line 11 of the next period. If you do not choose to stop the accrual of penalty and interest on a prior underpayment, you may carry the entire overpayment forward to line 11 of the next period.

Part B - Underpayment of Estimated Tax Penalty

Compute the penalty by applying the applicable rate to each underpayment. Compute the penalty for the number of days that the underpayment remained unpaid.

The penalty is equal to the interest that would accrue on the underpayment. The penalty cannot be more than 10 percent of the underpayment. Calculate this penalty like interest.

NOTE: If you have not paid the underpayment by December 31, 1998, the outstanding penalty that relates to that underpayment will compound on January 1, 1999.

Use lines 14 through 26 to compute the penalty attributable to different rate periods.

List your payments to figure the penalty applicable to these installments.

| TABLE 1 | |
|--|-----------------|
| Payments after 4/15/98 through 6/30/98 | |
| (a) Date | (b) Payments |
| | |
| | |

| TABLE 2 | |
|--|-----------------|
| Payments after 6/30/98 through 9/30/98 | |
| (a) Date | (b) Payments |
| | |
| | |

TABLE 3

Payments after 9/30/98 through 12/31/98

| (a) Date | (b) Payments |
|-------------|-----------------|
| | |
| | |

TABLE 4

Payments after 12/31/98 through 4/15/99

| (a) Date | (b) Payments |
|-------------|-----------------|
| | |
| | |

Chart of Total Days per Period

If an underpayment remained unpaid for an entire period, use the chart below to determine the number of days to enter on line 15, columns (a) and (b), line 18, columns (a), (b), and (c), and line 21, columns (a), (b), and (c), and line 24 columns (a), (b), (c), and (d).

| Rate Period | (a) | (b) | (c) | (d) |
|--------------|-----|-----|-----|-----|
| 1 (line 15) | 76 | 15 | | |
| 2 (line 18) | 92 | 92 | 15 | |
| 3 (line 21) | 92 | 92 | 92 | |
| 4 (line 24) | 105 | 105 | 105 | 90 |

For example, if you have an underpayment on line 13, column (a), but show no payments, you would enter "76" on line 15.

To determine if you need to make additional computations, see the interest calculation instructions.

Line 26 –

Total penalty on underpaid or late paid estimated payments.

Add the amounts on line 16, columns (a) and (b), and the amounts on lines 19 and 22 columns (a), (b), and (c), and the amounts on lines 25, columns (a), (b), (c), and (d).

Part C - Interest Calculation

Calculate the interest by applying the applicable rate against each underpayment. Calculate the interest for the number of days that the underpayment remained unpaid.

The interest rates are established at various times during the year. The interest rate for the first and second quarters of 1999 (January 1, 1999, through March 31, 1999, and April 1, 1999, through June 30, 1999) were not established by the time the department printed this form. To get the interest rate(s) that applies from January 1, 1999, to April 15, 1999, call one of the help numbers listed on page 1 of these instructions.

Use lines 27 through 40 to compute the interest attributable to different rate periods.

List your payments for 1998, before beginning to figure your interest.

TABLE 1

Payments after 4/15/98 through 6/30/98

| (a) Date | (b) Payments |
|-------------|-----------------|
| | |
| | |

TABLE 2

Payments after 6/30/98 through 9/30/98

| (a) Date | (b) Payments |
|-------------|-----------------|
| | |
| | |

TABLE 3

Payments after 9/30/98 through 12/31/98

| (a) Date | (b) Payments |
|-------------|-----------------|
| | |
| | |

TABLE 4

Payments after 12/31/98 through 4/15/99

| (a) Date | (b) Payments |
|-------------|-----------------|
| | |
| | |

List only the payments made during the dates shown in the table heading. Apply the following rules.

1. If you have any withheld Arizona income tax, the department considers you to have paid one-fourth of these amounts on each payment due date unless you can show otherwise.

For example, if you had Arizona income tax withheld from your wages of \$4,000 during the year, list \$1,000 as being paid on June 15, 1998, September 15, 1998, and January 15, 1999, in the applicable table. Do not list the withholding attributable to the first payment due date April 15, 1998.

2. List any amount that you pay with your tax return as a payment. Use the date you file your return as the payment date, unless you file late. In that case, use April 15, 1999.

Chart of Total Days per Period

If an underpayment remained unpaid for an entire period, use the chart below to determine the number of days to enter on line 29, columns (a) and (b), line 32, columns (a), (b), and (c), line 35, columns (a), (b), and (c), and line 38 columns (a), (b), (c), and (d).

| Rate Period | (a) | (b) | (c) | (d) |
|--------------|-----|-----|-----|-----|
| 1 (line 29) | 76 | 15 | | |
| 2 (line 32) | 92 | 92 | 15 | |
| 3 (line 35) | 92 | 92 | 92 | |
| 4 (line 38) | 105 | 105 | 105 | 90 |

For example, if you have an underpayment on line 27, column (a), but show no payments, you would enter "76" on line 29.

Rate Period 1

Enter on line 29 the number of days from 4/15/98 to the date of the first payment listed in Table 1. If no payments are listed, enter "76".

If You Listed a Payment in Table 1

On a separate sheet of paper apply the payment to the underpayment shown on line 27. The underpayment for the computation on line 29 is the amount of the payment applied to the line 27 underpayment. If the payment is more than the underpayment, apply only an amount equal to the underpayment and use that amount for the line 29 computation.

If You Did Not List Any Payments in Table 1

The underpayment is the entire underpayment balance because the entire underpayment was unpaid for the whole rate period.

Determine if You Need To Make Additional Computations

Use the following information to determine if you need to make additional computations.

1. The payment listed in the table reduced the underpayment to zero. You do not need to make any further computations for column (a). Calculate the interest for any other underpayments shown in columns (b) through (d) of line 27.
2. You did not list any payments in the table. You will need to calculate the interest for rate periods 2, 3, and 4. To do this, complete column (a) of lines 32, 33, 35, 36, 38, and 39.

3. The payment listed in the table did not reduce the underpayment to zero, and no other payments are listed. Make another computation on lines 32, 33, 35, 36, 38, and 39 to calculate the interest on the underpayment balance that remained unpaid for the entire rate period. In this case, enter another number in the entry space for lines 29 and 30, as follows:

On line 29, enter "76". This is the total number of days in the first rate period (see the chart above).

On line 30, make the computation and enter the result. The "underpayment" in this computation is the balance of the underpayment remaining in the period.

4. Additional payments are listed in the table and the first payment was not enough to reduce the underpayment to zero. Make a separate computation for each payment listed until the underpayment is reduced to zero. If there is still an underpayment balance after applying all of the payments, you will need to calculate the interest on the balance of the underpayment in the same manner as explained in number 2 above.

Rate Period 2

If an underpayment balance remains after applying any payments in Table 1, calculate the interest attributable to that balance on lines 32 and 33. Use the same steps as explained under Rate Period 1 above, but use the date and interest rate shown on lines 32 and 33. **Be sure to use only the payments listed in Table 2.**

NOTE: Interest compounds annually on January 1 of each year. Add any interest outstanding on that date to the principal amount of the tax (installment underpayment/late payment). The amount added to the principal becomes a part of the principal and accrues interest until paid.

Line 40 -

Total interest on underpaid or late paid estimated payments. Add the amounts on line 30, columns (a) and (b), and the amounts on line 33 and 36 columns (a), (b), and (c), and the amounts on line 39, columns (a), (b), (c), and (d). Enter the totals.

Line 41 -Total Penalty and Interest

Total penalty and interest. Add the amounts on lines 26 and 40. Round the total to the nearest whole dollar. If 50 cents or more, round up to the next dollar. If less than 50 cents, round down. Enter the total here and on Form 140, page 1, line 52 or Form 140PY, page 1, line 51, or Form 140NR, page 1, line 49.